Kerr Addison Mines Limited

Annual Report 1981

Gas pipelining operations for Canadian Hunter's Elmworth gas processing plant, near Grande Prairie, Alberta.

Kerr Addison Mines Limited

DIRECTORS:

P. S. Cross
Executive Vice-President
Kerr Addison Mines Limited

Allan Findlay, Q.C.
Partner
Tilley, Carson & Findlay

J. O. Hinds
Senior Vice-President —
Exploration & Development
Noranda Mines Limited

William James
President
Kerr Addison Mines Limited

James W. McCutcheon, Q.C.
Partner
Shibley, Righton & McCutcheon

D. G. Neelands, Q.C.
Company Director

J. P. W. Ostiguy, O.C.
Chairman
Greenshields Incorporated

Alfred Powis
Chairman and President
Noranda Mines Limited

W. H. Rea, C.M.
Vice-President
The Mutual Life Assurance Company of Canada

W. S. Row
Chairman of the Board
Kerr Addison Mines Limited

D. E. G. Schmitt
President
Pamour Porcupine Mines, Limited

OFFICERS:

W. S. Row
Chairman of the Board

William James
President & Chief Executive Officer

P. S. Cross
Executive Vice-President

I. D. Bayer
Vice-President and Treasurer

J. B. Sage
Secretary

D. A. Lowrie
Vice-President — Exploration

A. H. Cross
Comptroller

OPERATIONS:

The Kerr Addison Mine
D. S. Douglass, Manager

Agnew Lake Mines Limited
L. H. Heymann, Manager

Mogul of Ireland Limited
P. S. Cross, Chairman
& Managing Director

W. E. Hitchman, Manager

HEAD OFFICE AND EXPLORATION OFFICE:

P.O. Box 91
Commerce Court West
Toronto, Ontario
M5L 1C7

REGISTRAR AND TRANSFER AGENTS:

Canada Permanent Trust Company, Toronto
Registrar & Transfer Company, New York, N.Y.
and Jersey City, N.J.

ANNUAL MEETING OF SHAREHOLDERS:

Friday, May 7, 1982, 12:00 noon
in Commerce Hall, Commerce Court West,
King and Bay Streets,
Toronto, Ontario.

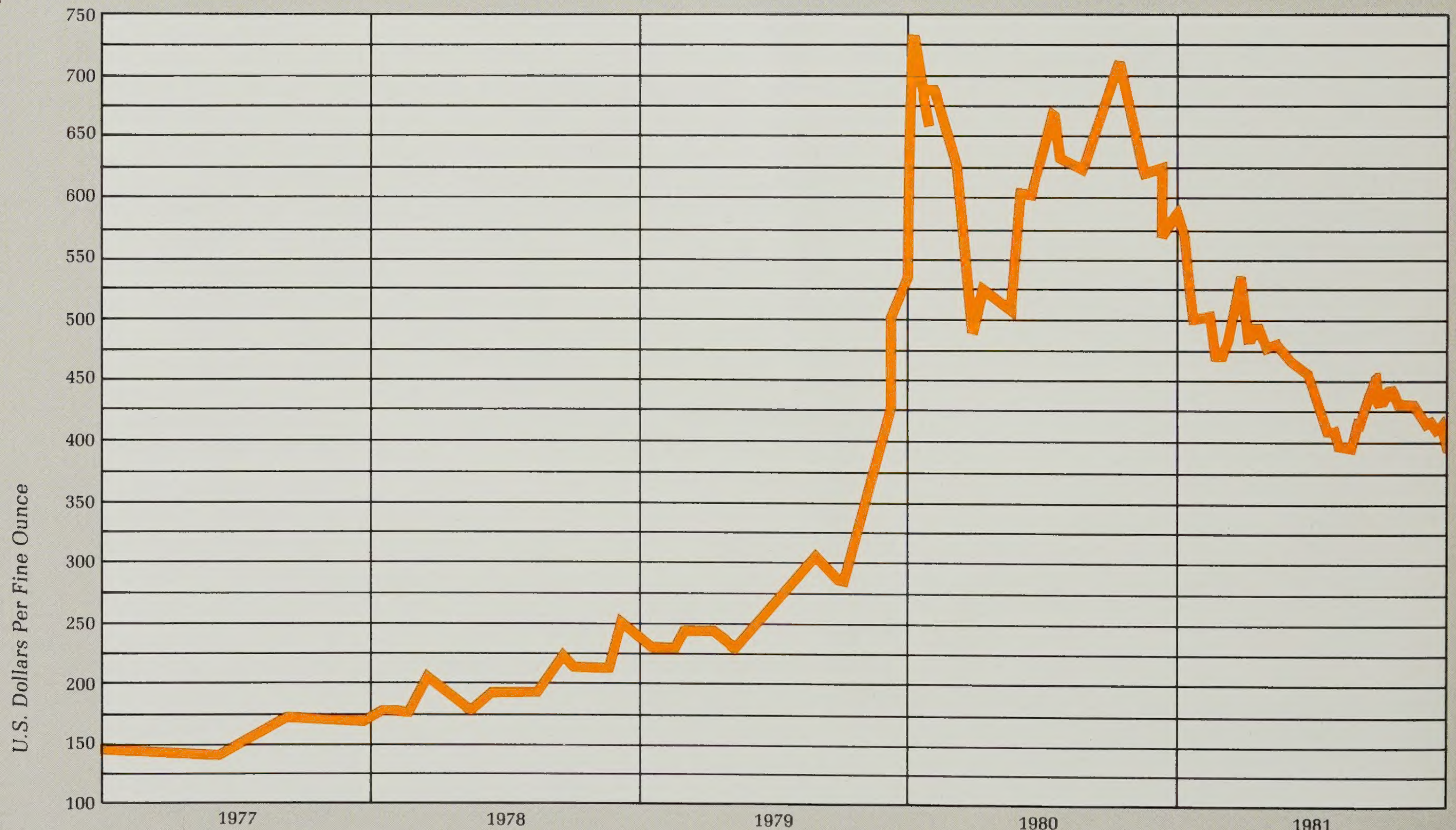
Financial Summary:

	1981	1980	1979	1978	1977
Millions of Dollars					
Production revenue	**$ 67.6**	$ 69.8	$ 54.8	$ 40.8	$ 44.5
*Net income (loss)	**46.0**	47.3	(5.7)	15.6	8.4
Working capital (deficit)	**21.7**	23.7	39.6	(1.0)	8.9
Dollars Per Share					
*Net income (loss)	**$ 4.90**	$ 5.07	$(0.61)	$ 1.68	$ 0.90
Dividends declared	**.60**	.40	.10	.50	.50

*Restated for 1977 and 1978

The Gold Picture:

Weekly Average Gold Price, Second Fixing — London Gold Market



Directors' Report to the Shareholders

Net income for 1981 was $46.0 million or $4.90 per share, compared to $5.07 per share in 1980, arising as follows:

($ millions)	1981	1980
Earnings from operations	$11.6	$11.5
Earnings from associated companies	11.9	24.8
Special items	22.5	11.0
Net income	$46.0	$47.3
Net income per share	$4.90	$5.07

Earnings from operations were $11.6 million in 1981, similar to the previous year. These results were achieved despite a 50 percent decline in profits from the Kerr Addison gold mine due to sharply lower gold prices and reduced gold production. The increasing size of Canadian Hunter's earnings contribution was an important development in the past year. Kerr Addison's share of Hunter profits was up substantially, as gas production volumes increased by three times the 1980 level. Profit margins at C.E.Z. were adversely affected by the higher costs of purchasing zinc concentrates for the reduction plant.

Earnings from associated companies were $11.9 million in 1981 compared to $24.8 million in 1980, as the net profits of Noranda Mines Limited declined from $408.4 million in 1980 to $164.8 million during the past year.

Special Agnew Lake and Zinor gains in 1981 totalled $22.5 million. During the year, Agnew Lake completed its uranium sales commitments at favourable prices under contract terms negotiated in 1976. Profits from these deliveries, together with higher than anticipated uranium production, resulted in a $5.6 million after-tax gain. Zinor Holdings Limited recorded profits from the issue of treasury shares by Noranda Mines Limited and from tendering Noranda common shares under the public offering made by Brascade Resources Inc. Kerr Addison's share of these gains amounted to $12.4 million and $4.5 million respectively.

Working capital was $21.7 million, or $2.30 per share at December 31, 1981, a decline of $2.0 million from the previous year end. Funds provided from operations amounted to $16.4 million, and $7.7 million in dividends were received from Zinor Holdings Limited. Additions to property, plant and equipment totalled $20.6 million, of which $17.8 million was expended on gas and oil exploration and development through the Canadian and American Hunter joint ventures. The Company does not have any long-term debt, other than the declining obligations associated with the closure of the Agnew Lake property.

Production of gold from the Kerr Addison mine at Virginiatown, Ontario, was 51,500 ounces in 1981, produced from 272,000 tons of ore grading 0.20 ounces per ton, compared to 55,900 ounces in 1980, produced from 215,000 tons grading 0.27 ounces per ton. Included in the 1981 production numbers were 7,300 ounces of gold produced from 58,000 tons of ore grading 0.14 ounces per ton from the Company's Garrison open pit mine, located near Matheson, Ontario, a distance of 90 miles from the Kerr Addison mill. This small pit was mined out in 1981, and 5,000 tons of ore remain to be treated in early 1982. The

average gold price in 1981 was $460 U.S. per ounce on the London Market, a sizeable reduction from the $613 U.S. average price in 1980. Proven and probable ore reserves at year end were 682,000 tons grading 0.147 ounces of gold per ton, compared to 415,000 tons grading 0.256 ounces per ton a year earlier, representing a small decrease in contained ounces.

Production from the 75% owned Mogul of Ireland lead-zinc mine, located in County Tipperary, Republic of Ireland, amounted to 610,000 tons grading 3.6% lead and 5.3% zinc, compared to 619,000 tons grading 3.7% lead and 5.3% zinc in 1980. Following lengthy negotiations, an agreement was reached with the various unions representing Mogul's employees on the amount of redundancy payable upon mine closure. After providing for the full costs of this severance programme, Mogul incurred an operating loss in 1981. Due to the depletion of economic ore, this mine is expected to close by the middle of 1982. As Kerr Addison's investment in Mogul is carried at no value, the projected termination of this mine will have no effect on Kerr Addison's earnings.

Uranium production from the Agnew Lake property, located west of Sudbury, Ontario, declined to 321,000 pounds of U_3O_8 in 1981, compared to 507,000 pounds in the previous year. This anticipated reduction was the result of the curtailment of mining in the second quarter of 1980 and the gradual decline of solution grades caused by the continued leaching of the old stockpiles. The Company will maintain the salvage leaching operation during 1982 until unit costs become uneconomic. The uranium loan, which amounted to 250,000 pounds of U_3O_8 at year end, will be repaid from mine production or open market purchases by the end of 1982. Plans for the environmental clean up and ultimate closure of the property were well under way at year end. The major programme, which consists of moving the surface stockpile to the tailings area, will begin this Summer. The Company has fully provided for the estimated costs of these activities.

Kerr Addison's investment in oil and gas appears to be a successful venture which should contribute significantly to the Company's future earnings. Gas production from the 11.1% owned Canadian Hunter joint venture rose by 334% over the prior year as a result of substantial increases in the recognized reserves within the Elmworth and Wapiti contract areas in Alberta. Kerr Addison's share of 1981 production was 3.7 billion cubic feet (Bcf), or 10 million cubic feet (MMcf) per day. Production was limited to about 70% of contract rates throughout the industry due to low export volumes. Canadian Hunter has become one of the top 20 gas producers in Canada.

The gas processing facilities at Elmworth and Wapiti demonstrated capabilities of 300 MMcf per day and 85 MMcf per day respectively. Each of these facilities will be expanded by 50% during 1982 in anticipation of higher contract rates resulting from late 1982 reserve redeterminations. When the Elmworth expansion is completed, this plant will be Alberta's largest sales gas processing facility at 450 MMcf per day.

The Karr gas plant, 40 miles south of Grande Prairie, was brought into production in November. This plant has a capability of 40

"Frac" equipment in operation, with the well-completion rig in background, at a Canadian Hunter gas well site in the Elmworth Deep Basin area of Alberta.
"Fracing", derived from the word "fracture", is a common method of stimulating wells to improve their production capability. This involves high pressure pumping of fluids with sand or other harder substances down into the formation to create and prop open cracks, thereby increasing the permeability of the pay zone and allowing the gas or oil to flow more freely.

MMcf per day (Kerr Addison's share 1.2 MMcf per day) and produces to both Sulpetro and Pan Alberta export contracts.

A new plant and gathering system with a capability of 200 MMcf per day is now under construction in the south Wapiti area. This facility will be completed by November 1, 1982 to produce to the existing Wapiti contract and the export contracts of our partner, Pan Alberta (Kerr Addison's share 7 MMcf per day).

Exploration activity in Western Canada was off sharply due to the poor prospects for expanded gas markets and a generally unsatisfactory economic regime created through the substantially higher taxation imposed on hydrocarbon production. Canadian Hunter's exploratory programme was limited primarily to the Deep Basin area of Alberta and British Columbia. In the Nechako Basin, a 6 million acre tract in the central interior of British Columbia, geophysical surveys have been completed and three dry holes have been drilled. During 1981, Canadian Hunter participated in the drilling of 60 exploratory and development wells, resulting in 3 oil and 43 gas wells, a success ratio of 77%.

Kerr Addison's share of gas reserves at December 31, 1981, before royalty, was 119 billion cubic feet proven and 79 billion cubic feet probable, similar to last year's reserves.

The American Hunter joint venture, in which Kerr Addison has an 11.25% interest, focussed its 1981 activities on the identification and acquisition of petroleum rights in significant geological plays in the United States. Kerr Addison's share of expenditures amounted to U.S. $9.0 million. During 1982, American Hunter plans to drill and evaluate at least five major plays where sufficient land has been assembled to warrant drilling. Kerr Addison expects to contribute U.S. $5.0 million to the 1982 programme.

The 9.8% owned Canadian Electrolytic Zinc reduction plant in Valleyfield, Quebec, produced 225,000 tons of zinc slab, representing 94% of plant capacity, a slight reduction from the 1980 production rate. Kerr Addison's share of earnings declined during 1981 as the tight supply of zinc concentrates and high operating costs offset marginally higher zinc prices. Zinc metal demand weakened considerably during the fourth quarter of 1981 and stocks were rising at year end. The roaster and acid plant expansion is proceeding on schedule and should be operational in 1983.

The transactions discussed earlier in this report with respect to Zinor Holdings Limited, of which Kerr Addison owns 27.3%, resulted in Zinor's investment in Noranda declining to 20.8 million common shares, or 16.5%. Zinor also holds 2.6 million Brascade preferred shares and 0.8 million Noranda preferred shares, and its bank borrowings amounted to $40 million at year end.

Mineral exploration expenditures were $3.2 million in 1981 and, for 1982 the budget has been increased to $4.0 million. The exploration emphasis continues to be on the search for gold deposits in Ontario and Quebec, with a number of projects within haulage distance of the Kerr Addison mill. Elsewhere, Kerr Addison is exploring mainly for gold and base metals in British Columbia, Ontario, Quebec and the southwestern United States, as the Company is experienced in mining these metals.

Kerr Addison is the operator and 30% participant in an exploration programme on the Comaplex Permit where twelve of nineteen drill holes have intersected fracture zones in the Athabasca sandstone which contain radioactive minerals and minor sulphides. The winter programme is continuing on this property in northern Saskatchewan.

Kerr Addison's earnings are projected to decline in 1982 from the levels achieved during the previous two years. Continuing large special gains are not expected at this time, gold prices have weakened considerably and world economic conditions are exerting downward pressures on the earnings of Noranda Mines Limited. In 1983, however, Canadian Hunter's gas production is expected to increase and an improvement in the operating results of Noranda and C.E.Z. should bring about a recovery of Kerr Addison's earnings.

C.E.Z. and Canadian Hunter will be the long-term contributors to the Company's earnings base. The Kerr Addison gold mine is nearly exhausted, but its life has continued to be extended by the addition of small ore shoots and low-grade reserves which are economic at current prices. If these prices prevail, the mine's life will be at least two years, but at a reduced profit level. As well, the Company has a substantial investment in Zinor.

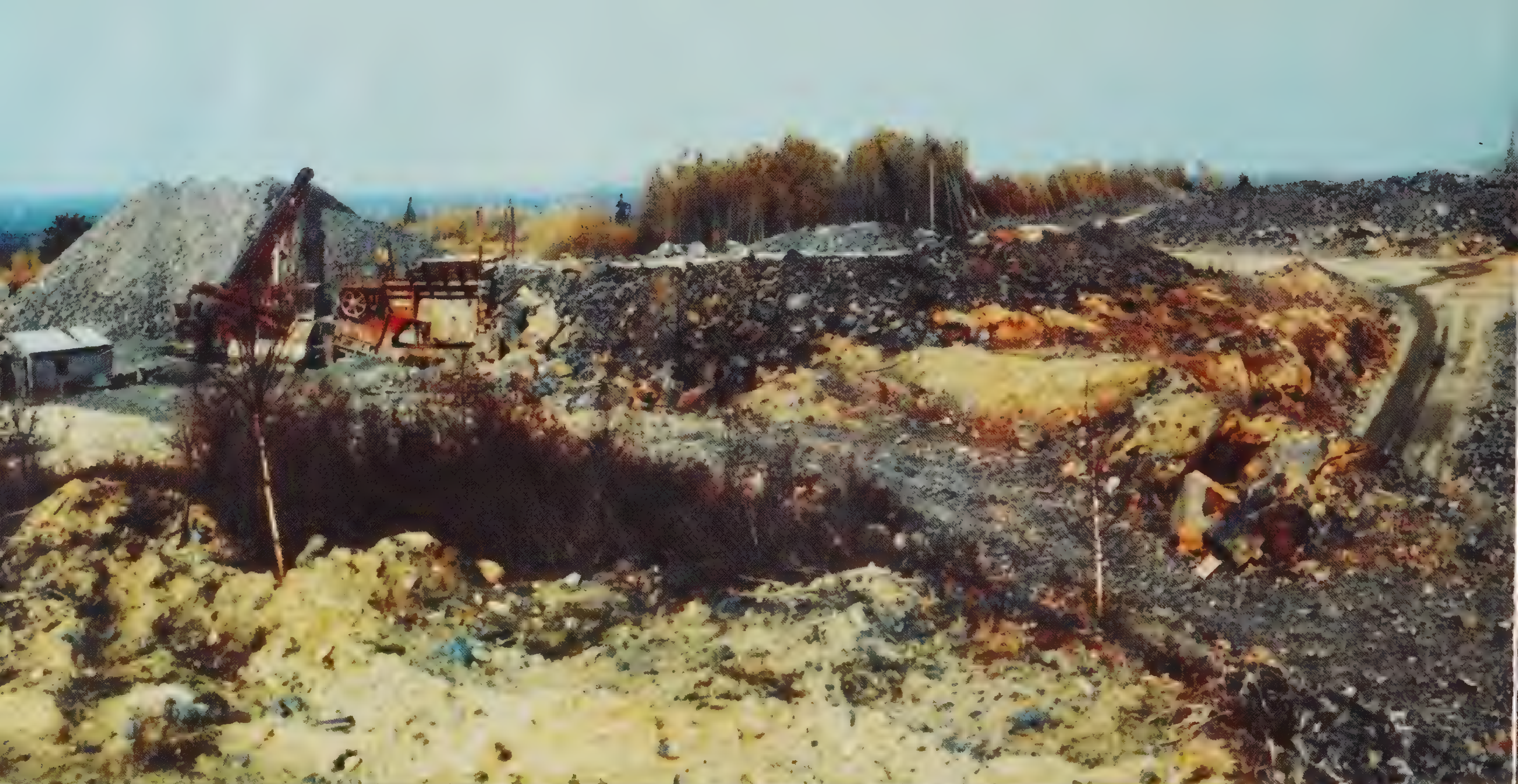
During the past year, Kerr Addison investigated several possible acquisitions in the mining sector but found that the investments required could not be justified within our rate of return parameters. The Company plans to remain alert to future acquisitions, but will take action only if they can be obtained at prices commensurate with the risks inherent in the mining industry.

On behalf of the Board,

William James
President

Toronto, Canada
February 17, 1982

Examining drill hole core at Comaplex uranium project, near Read Lake, Saskatchewan in September 1981. Left to right: Brian Asbury, Project Geologist; Dale Hendrick, Chief Geologist; Pat Lewis, Regional Geologist; Earl Dodson, Exploration Manager of Chevron Canada Limited (joint venture partner) and Dave Lowrie, Vice-President — Exploration.



A panoramic view of the Company's open-pit gold property, near Matheson in Garrison Township, Ontario during October 1981. At that time, the mining of the pit was nearing completion. Ore crushing and stockpile facilities can be seen on the left. The ore was transported by truck 90 miles to the Kerr Addison mine for milling.

Report on Mining Operations

THE KERR ADDISON MINE

During 1981 the Kerr Addison mine located at Virginiatown, Ontario, milled a total of 271,666 tons of ore at a grade of 0.197 ounces of gold per ton and averaging 744 tons per day. The increased throughput over that of 1980 resulted from the treatment of 57,964 tons of ore from the Company's Garrison mine located near Matheson, Ontario. Total production amounted to 51,539 ounces of gold and 2,532 ounces of silver having a realized value of $27.19 million or $100.10 per ton milled. The overall mill recovery was 96.46%. The average price received for gold during 1981 was $559 Cdn. an ounce compared to $659 Cdn. for 1980.

Total development advance during the year was 3,275 feet, an increase of 23% over the previous year. Development was confined mainly to the upper levels preparing small ore zones for mining. Development accounted for 10% of the total ore broken.

Mining was carried on in nine ore bodies on 18 levels between the 300 and 4,200 foot levels. The flow type ore zones provided

126,084 tons or 59% while the carbonate ore bodies contributed the remaining 87,618 tons. Ore grades were respectively 0.291 and 0.108 ounces of gold per ton. Approximately 46% of the ore broken was by square-set methods while cut-and-fill and shrinkage made up 31% and 13% respectively. A bulk mining test of approximately 22,500 tons was undertaken in one of the large low grade carbonate ore bodies and milled separately to determine its grade. Results were sufficiently favourable to include this zone in probable reserves for future mining.

Production costs at the Kerr mine increased by 13.0% per ton milled and by 42.1% per ounce of gold produced over those of 1980. Total labour costs increased 15.0% and were 69.0% of total operating costs.

Mineable ore reserves at the Kerr mine with dilution in the proven and probable categories were estimated at December 31, 1981 to be 682,194 tons at a grade of 0.147 ounces per ton. These reserves include 261,777 tons of graphitic and low grade carbonate ore grading 0.064 ounces per ton. After the milling of 213,702 tons, total reserves increased 266,965 tons over that at the end of 1980.

The Garrison gold deposit located near Matheson, Ontario, was mined during 1981 producing 63,500 tons of ore which was hauled to the Kerr mill, a distance of approximately 90 miles. A total of 57,964 tons with a head grade of 0.138 ounces of gold per ton was milled producing 7,305 ounces leaving approximately 5,500 tons to complete the project in 1982.

The total workforce at the end of the year was 387 persons, an increase of 13 from 1980. The 3.5% increase was expected due to the increase in development and the milling of the Garrison ore. The accident frequency per million man hours in 1981 was 11, compared to 15 for all Ontario gold mines. The Kerr Addison mine received the John T. Ryan

Special Award Certificate for notable achievement in safe mining for the year 1980.

The Kerr Addison mine, since commencement of production in May 1938 to December 31, 1981 has mined 36,156,631 tons at a recovered grade of 0.276 ounces of gold per ton for a production of 9,988,743 ounces with a value of $515,900,911. In April 1982, yet another milestone will have been reached with the pouring of the ten millionth ounce of gold from this mine.

MOGUL OF IRELAND LIMITED

Production during 1981 at Mogul of Ireland, located in Tipperary County, amounted to 609,986 tons at a grade of 3.55% lead and 5.31% zinc, producing in concentrates 13,577 tons of lead and 26,757 tons of zinc resulting in recoveries of 66.24% and 83.91% for lead and zinc respectively.

Mine development during the year amounted to an advance of 7,662 feet and was concentrated in the pillar recovery areas of the Upper "G" Zone, in high grade lead areas of the "B" and in the "K" Zones. There remains little of the known ore reserves to be developed. No diamond drilling was done on surface or underground. Development contributed 8.9% of the total ore broken. Waste handled totalled 24,764 tons.

Ore broken from all sources totalled 602,817 tons. The "B" and "K" Zones provided 51.3% with the balance coming from the "G" ore zones. Pillar recovery contributed 217,210 tons or 36.0%. The drilled-off reserve at the end of the year stood at 75,113 tons while the broken reserve was 28,600 tons.

Total operating costs per ton of ore milled increased 10.9% over the previous year and was less than the inflationary trend of 23.3% due to a reduction in exploration and development. Power costs increased 23.5% during the year and accounted for 18.2% of operating costs. Expenditures on labour and related benefits increased 14.3% and were 57.5% of operating costs. The average settlement price on the L.M.E. for lead was 7.2% lower than that for 1980 while the European G.O.B. zinc producer price was 15.5% higher.

As a continuing practice, reserves were adjusted at the end of the year to reflect current costs and metal market trends.

Mineable proven and probable reserves with dilution were estimated at 662,000 tons at a grade of 3.88% lead and 5.13% zinc, representing a depletion of approximately 175,000 tons after the milling of 609,986 tons.

At the end of the year the total workforce was 507, an increase of 15 over last year. The additional personnel were required in the mine in order to maintain production schedules in the face of diminishing ore thickness and longer haulage distances. At mid year an agreement was concluded with the various unions representing all Mogul employees for extra-statutory redundancy payments upon mine closure.

The failure to agree on terms for a new National Wage Understanding to replace that which expired in October 1981 has resulted in exorbitant wage demands from the unions.

AGNEW LAKE MINES LIMITED

Production at the Agnew Lake property during 1981 amounted to 321,184 pounds of U_3O_8, bringing the total since the commencement of production in 1977 to 1,746,124 pounds.

There was no mining during 1981. Eight underground stopes containing approximately 2,221,000 tons of broken ore, with a uranium content at the beginning of the year of 0.51 pounds per ton, were continually under leach and provided 62.7% of the uranium produced. The surface leachpile containing 1,516,000 tons or ore with a uranium content of 0.40 pounds per ton at the beginning of the year contributed the balance. Extraction to the end of 1981 has been 59.8% from the surface leachpile and 51.6% from the underground stopes, for an overall extraction of 55.0%. The solution inventory at the year end was estimated at 459,640,000 litres, containing approximately 50,000 pounds of U_3O_8.

At December 31, 1981, the mineable proven and probable mineral reserves with dilution, in place, broken in stopes and on the surface leachpile, were estimated at 9,473,000 tons containing approximately 7,477,000 pounds of U_3O_8 or 0.79 pounds per ton.

The ion exchange and solvent extraction plants performed at an overall efficiency of 93.8%, treating 1,468,205 x 10^3 litres of solution, containing 0.086 grams of uranium per litre. Plant availability was 99.3%.

Extensive work was undertaken during the year in devising an environmental close-out plan to be implemented when operations cease. A conceptual plan was submitted to the regulatory agencies which has been approved in principle. Several technical studies are now underway to substantiate the concept. It is expected that initial work in carrying out the plan will commence mid 1982.

At the end of the year, the total workforce was 73, a reduction of 7 during the year. As a result of the severance plan established in 1979 when the conversion was made to a salvage leach operation, turnover has been negligible. The accident frequency per million man hours of work in 1981 dropped to 14 from 41 for the previous year.

EXPLORATION

Approximately half of Kerr Addison's 1981 mineral exploration expenditures of $3,165,000 were directed towards a continuing search for gold in Canada and the United States. Total expenditures for the year were approximately $4.3 million, of which 26% was recovered from joint venture parties.

The majority of the funds expended on exploration for gold were employed on prospects in northwestern Ontario and in areas of northeastern Quebec. Further work is in progress in these areas.

Uranium exploration activity has been curtailed in both the United States and in Canada with the exception of work on the Comaplex Project area in northern Saskatchewan. On this property, which is located approximately 50 miles west of Wollaston Post, Saskatchewan, several drill hole intersections obtained in the fall of 1981 and in January of 1982, contain radioactive mineralization in fractures cutting the Athabasca sandstone. Additional drilling is planned to outline the fracture zone and, ultimately, to explore the sandstone at depth.

HEALTH AND SAFETY

It is the policy of Kerr Addison Mines Limited to provide at all of its operations a safe and healthy working environment for all its employees.

To this end, every reasonable effort is made to ensure that work will only be performed after all possible safety and health risks have been fully evaluated and suitable precautions taken.

While Kerr Addison Mines Limited recognizes that the prime responsibility for safe and efficient working conditions rests with management and its supervision, each employee is charged with the responsibility for his or her individual safety and the practice, promotion and support of the Company's health and safety programme.

Through the joint effort of all parties, the Kerr Addison operations will continue to be safe and healthy places in which to work.

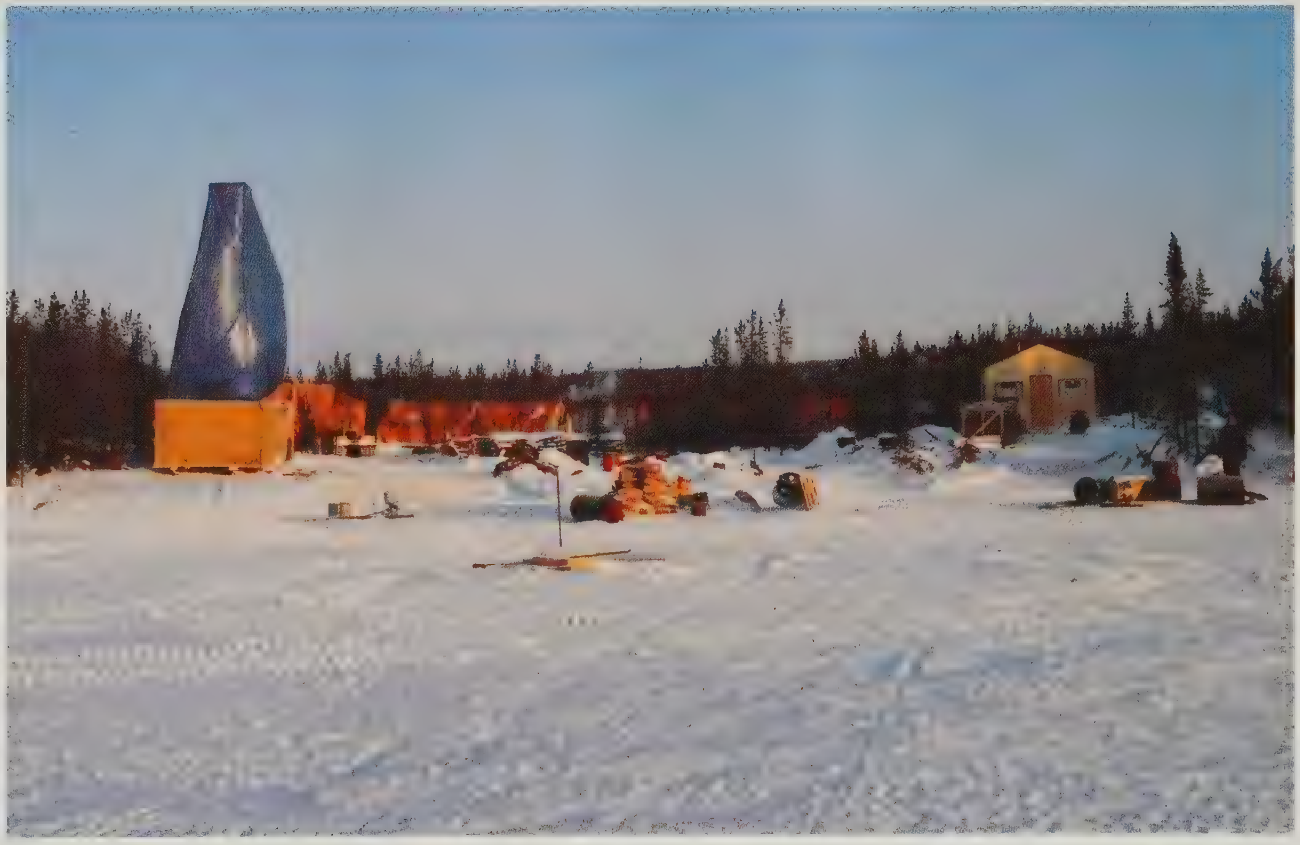
* * * * *

The hard work, loyalty and cooperation of all employees and the continued support of the Directors and Officers during the past year is acknowledged with great pleasure.

Respectfully submitted,

P. S. Cross
Executive Vice-President

Toronto, Canada
February 17, 1982



Winter programme drill camp at Comaplex uranium project, on Read Lake, Saskatchewan in February 1982. Drill shack (at left) has been custom-fitted with a reinforced vinyl tarp around the drill mast for cold weather operations.

Kerr
Addison
Mines
Limited

Consolidated Statement of Operations

For the year ended December 31, 1981 (with comparative figures for 1980)

	1981	1980
Operations:		
Value of production	**$67,587,000**	$69,789,000
Cost of production	**46,213,000**	40,801,000
	21,374,000	28,988,000
Dividends and interest income	**4,308,000**	1,356,000
	25,682,000	30,344,000
Deduct (add):		
Administrative and general expenses	**757,000**	594,000
Outside exploration expenses	**3,159,000**	3,071,000
Depreciation and amortization	**3,125,000**	3,439,000
Income and mining taxes (including deferred taxes of $3,389,000 in 1981; $7,045,000 in 1980)	**6,888,000**	11,744,000
Minority interest in losses of a subsidiary company	**(338,000)**	(384,000)
Foreign currency translation loss	**469,000**	364,000
	14,060,000	18,828,000
	11,622,000	11,516,000
Share of earnings of associated companies	**11,922,000**	24,843,000
Profit before the following	**23,544,000**	36,359,000
Add (deduct):		
Reduction in provision for mine closure associated with the Agnew Lake uranium property (net of tax of $2,400,000 in 1981; $5,100,000 in 1980) (note 3)	**5,600,000**	10,900,000
Write-off of investment in Mogul of Ireland Limited		(4,348,000)
Gain on disposal of investments and other assets (net of deferred income taxes in 1980 of $65,000) (notes 2 and 7(e))	**16,873,000**	4,367,000
Net income for the year	**$46,017,000**	$47,278,000
Net income per share	**$4.90**	$5.07

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Retained Earnings

For the year ended December 31, 1981 (with comparative figures for 1980)

	1981	1980
Retained earnings at beginning of year	**$123,552,000**	$ 80,009,000
Add net income for the year	**46,017,000**	47,278,000
	169,569,000	127,287,000
Deduct dividends (60¢ per share in 1981; 40¢ per share in 1980) (note 5 (b))	**5,637,000**	3,735,000
Retained earnings at end of year	**$163,932,000**	$123,552,000

(See accompanying notes to consolidated financial statements)

Auditors' Report

To the Shareholders of
Kerr Addison Mines Limited:

We have examined the consolidated balance sheet of Kerr Addison Mines Limited as at December 31, 1981 and the consolidated statements of operations, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 25, 1982.

Clarkson Gordon
Chartered Accountants

Kerr Addison Mines Limited
(Incorporated under the laws of Ontario)

Consolidated Balance Sheet

December 31, 1981
(with comparative figures at December 31, 1980)

ASSETS	1981	1980
Current:		
Cash, term deposits and short-term notes	**$ 23,571,000**	$ 12,952,000
Marketable securities and short-term investments, at cost (quoted market value 1981 — $6,765,000; 1980 — $9,498,000)	**2,866,000**	2,866,000
Concentrates, bullion and metals awaiting settlement, in transit and on hand	**12,839,000**	16,777,000
Accounts and interest receivable	**11,003,000**	7,054,000
Supplies and materials, at cost	**4,933,000**	6,086,000
Prepaid expenses	**212,000**	153,000
Total current assets	**55,424,000**	45,888,000
Investments:		
Associated companies	**143,074,000**	121,110,000
Sundry, at cost	**317,000**	313,000
	143,391,000	121,423,000
Property, plant and equipment, at cost:		
Mining and smelting	**50,307,000**	47,523,000
Gas and oil	**62,069,000**	44,299,000
	112,376,000	91,822,000
Less accumulated depreciation and amortization	**45,666,000**	42,487,000
	66,710,000	49,335,000
	$265,525,000	$216,646,000

(See accompanying notes to consolidated financial statements)

LIABILITIES AND SHAREHOLDERS' EQUITY	**1981**	1980
Current:		
Accounts payable and accrued charges	**$ 23,363,000**	$ 13,649,000
Income and mining taxes payable (note 7(f))	**10,386,000**	8,535,000
Total current liabilities	**33,749,000**	22,184,000
Provision for mine closures (note 4)	**17,730,000**	24,758,000
Deferred income taxes	**8,707,000**	6,064,000
Minority interest in subsidiaries	**1,083,000**	1,421,000
Shareholders' equity (note 5):		
Share capital	**42,627,000**	41,900,000
Retained earnings	**163,932,000**	123,552,000
	206,559,000	165,452,000
Less the company's pro rata interest in its shares held by associated companies	**(2,303,000)**	(3,233,000)
	204,256,000	162,219,000
	$265,525,000	$216,646,000

On behalf of the Board:

William James

William James, Director

P. S. Cross, Director

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1981 (with comparative figures for 1980)

	1981	1980
Source of funds:		
Funds provided from operations	**$16,429,000**	$22,208,000
Dividends from associated companies	**7,741,000**	7,777,000
Proceeds from sale of fixed and other assets	**22,000**	516,000
Proceeds from issuance of shares for cash	**637,000**	215,000
	24,829,000	30,716,000
Application of funds:		
Mine closure expenditures (net)	**690,000**	458,000
Purchase of shares of associated company		25,980,000
Dividends (excluding stock dividends of $90,000 in 1981; $58,000 in 1980)	**5,547,000**	3,677,000
Additions to property, plant and equipment	**20,619,000**	16,293,000
Other applications of funds (net)	**2,000**	163,000
	26,858,000	46,571,000
Decrease in working capital	**(2,029,000)**	(15,855,000)
Working capital, beginning of year	**23,704,000**	39,559,000
Working capital, end of year	**$21,675,000**	$23,704,000

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

December 31, 1981

1. **Summary of significant accounting policies**

(a) Basis of presentation of financial statements —

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in Canada and include, on a consolidated basis, the accounts of Kerr Addison Mines Limited and its subsidiary companies:

	Percentage ownership
Agnew Lake Mines Limited	100%
Keradamex, Inc.	100%
Kerramerican, Inc. (non-operating)	100%
Normetal Mines Limited	100%
Quemont Mines Limited	100%
Mogul of Ireland Limited	75%

The company follows the equity method of accounting for its investment in Zinor Holdings Limited as it did for its previous investment in Noranda Mines Limited now held by Zinor. Under the equity method the investment is initially recorded at cost and adjusted thereafter for the company's pro rata share of earnings less dividends received since the dates of investment. The difference between the cost of this investment and the underlying net book values at the various dates of acquisition is being amortized over the lives of the assets to which it is attributed. The aggregate of such purchase price differences at December 31, 1981 amounted to $4,915,000 ($5,305,000 at December 31, 1980).

Through its investment in Zinor, the company has an indirect interest in Noranda Mines Limited of 4.5% (5.8% at December 31, 1980) while Noranda in turn owns 41.3% of the outstanding common shares of Kerr Addison. These reciprocal shareholdings result in the company having an interest of 1.9% (2.4% at December 31, 1980) in its own shares which has been deducted from shareholders' equity. Similarly, the company's net income and net income per share have been determined after taking into account such intercompany shareholdings.

(b) Exchange translation —

The financial statements of companies outside of Canada have been translated into Canadian dollars as follows: current assets and current liabilities at exchange rates prevailing at the year end; fixed assets, depreciation and amortization provisions on the basis of rates prevailing at dates of acquisition, and income and expenses (other than depreciation and amortization) at average rates during the year. Exchange gains or losses resulting from such translation practices are reflected in the consolidated statement of operations.

(c) Concentrates, bullion and metals —

Consistent with industry practice, the company records as revenue the value of production of concentrates, bullion, and metals awaiting settlement, in transit and on hand at estimated net realizable value. Purchased concentrates are valued at the lower of actual cost and net realizable value.

(d) Property, plant and equipment —

Additions to property, plant and equipment are recorded at cost and include previously deferred exploration and development expenditures on properties which have been brought into production. Depreciation of property, plant and equipment and amortization of development expenditures are provided at rates designed to write off the costs over the estimated service lives of the assets. Fixed assets are generally depreciated in equal annual amounts over their estimated service lives (which at December 31, 1981 range from 5 to 15 years) and development expenditures are amortized on a unit-of-production basis.

(e) Exploration and development expenditures —

Gas and oil —

The company participates through joint venture agreements with Noranda Mines Limited and others in certain gas and oil properties held by Canadian Hunter Exploration Limited and American Hunter Exploration Ltd. as trustees.

The company has adopted the full cost method of accounting for its gas and oil activities whereby all costs relating to the exploration for and development of gas and oil reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties and costs of drilling both productive and non-productive wells. These costs are being amortized to income by the unit-of-production method based on estimated proven gas and oil reserves.

Minerals —
Mineral exploration and development expenditures are charged against current earnings unless they relate to interests in properties where the reserves have the potential of being economically recoverable, in which case the expenditures are deferred. Upon disposal or abandonment of such interests, the net gain or loss is reflected in the consolidated statement of operations. If the properties are brought into production, deferred exploration and development expenditures relating thereto are reclassified with property, plant and equipment and amortized as explained in note 1(d).

(f) *Income taxes —*
The company follows the tax allocation method of accounting for income taxes. Under this method, timing differences between reported and taxable income result in deferred income taxes. The principal timing differences relate to exploration and development expenditures and capital cost allowances which are claimed for tax purposes in years which are earlier, or later, than those in which the expenditures are written off or amortized and depreciation is charged in the consolidated statement of operations.

2. **Zinor Holdings Limited**

In October 1981, Brascade Resources Inc., the principal shareholder of Noranda Mines Limited, purchased 12,500,000 common shares from Noranda's treasury. This represented almost all of the common shares issued from treasury by Noranda during the year. Also, in October, Brascade acquired 3,485,432 common shares of Noranda from Zinor as part of a public offer. The resulting gains recorded by Kerr Addison, reflecting its 27.3% interest in Zinor, were $12,415,000 and $4,438,000 (net of income taxes of $2,778,000) respectively and are included in gain on disposal of investments and other assets. (In 1980 a gain of $4,106,000 accruing to the company on the issue of treasury shares by Noranda was included under this caption.).

3. **Agnew Lake**

During 1981, the company completed its uranium sales commitments by delivering 200,000 pounds of uranium concentrate to customers. Profits from these deliveries, which were made at favourable prices under contract terms negotiated in 1976, together with higher than expected uranium production from the salvage leach operation, resulted in a special gain of $5,600,000 (net of $2,400,000 of income taxes) in 1981. A similar gain in 1980 amounted to $10,900,000 (net of $5,100,000 of income taxes).

4. **Provision for mine closures**

The provision for mine closures at December 31, 1981 includes estimated net expenditures to be incurred for reclamation, rehabilitation and closure of the Agnew Lake property and of other mining properties currently in operation or closed in prior years but for which rehabilitation costs are still being incurred. The net balance of the provision at December 31, 1981 was $30,869,000 (1980 — $28,661,000) of which $13,139,000 (1980 — $3,903,000) is included in the consolidated balance sheet as part of accounts payable and accrued charges and $17,730,000 (1980 — $24,758,000) as provision for mine closures.

5. **Shareholders' equity**

Details of share capital and dividends are as follows:

	Number of shares	
	1981	1980
(a) Share capital —		
Authorized — Common shares without par value	12,500,000	12,500,000
Issued and outstanding —	9,617,986	9,571,214
Company's pro rata interest in its shares held by associated companies	189,050	228,949

In 1981, 5,147 shares valued at $90,000 were issued as stock dividends. As well, 16,725 shares were issued under the company's stock option plan for $220,000 cash and 24,900 shares were issued under the company's stock purchase plan for $417,000. At December 31, 1981, options on 36,800 shares were outstanding, exercisable at prices varying from $11.53 to $15.91 for periods up to 1991.

	1981	1980
(b) Dividends —		
Dividends declared during year	$ 5,765,000	$ 3,827,000
Less company's pro rata share of dividends paid to associated companies	(128,000)	(92,000)
Net charge to retained earnings	$ 5,637,000	$ 3,735,000

6. **Contingent liabilities**

(a) The company along with Agnew Lake Mines Limited is a defendant in an action commenced in the Supreme Court of Ontario by Q.M.G. Holdings Inc. arising from the sale in 1974 by Q.M.G. Holdings Inc. to Kerr Addison Mines Limited of its 10% share interest in Agnew Lake Mines Limited. Q.M.G. Holdings Inc. claims damages in excess of $13,500,000 for alleged misrepresentation. The company is defending the action and in the opinion of counsel the company has a good defence to the action on the merits.

(b) Government environmental legislation and regulations may require that the company incur future expenditures for the rehabilitation of mining properties that have been closed. While it is still not possible to develop specific plans for such rehabilitation or costs relating thereto, management believes that adequate provision for such costs has been included in the provision for mine closures.

7. **Other information**

(a) *Segmented information*

The company operates primarily in two industries — mining and smelting, and gas and oil and in three geographic areas — Canada, the United States of America and Ireland. The mining and smelting industry comprises the mining and sales of gold from the Kerr mine, lead/zinc from Mogul of Ireland and the zinc reduction activities of the Canadian Electrolytic Zinc operation. The gas and oil industry comprises the company's interest in the Canadian Hunter and American Hunter joint ventures. Results of the discontinued Agnew Lake operation are not included. Information regarding industry and geographic segments is set out below:

	1981 (in $000's)						1980 (in $000's)				
	Industry Segments			Geographic Segments			Industry Segments			Geographic Segments	
	Mining and smelting	Gas and oil	Consolidated	Canada	U.S.A.	Ireland	Mining and smelting	Gas and oil	Consolidated	Canada	Ireland
Value of production	$57,505	$ 10,082	$ 67,587	$ 45,468		$22,119	$67,265	$ 2,524	$ 69,789	$ 48,677	$21,112
Cost of production	45,725	488	46,213	22,578	$ 181	23,454	40,551	250	40,801	18,460	22,341
	11,780	9,594	21,374	22,890	(181)	(1,335)	26,714	2,274	28,988	30,217	(1,229)
Outside exploration expenses	3,159		3,159	2,225	934		3,071		3,071	3,071	
Depreciation and amortization	511	2,614	3,125	3,125			2,298	1,141	3,439	1,621	1,818
Segment operating profit (loss)	$ 8,110	$ 6,980	15,090	17,540	(1,115)	(1,335)	$21,345	$ 1,133	22,478	25,525	(3,047)
Dividends and interest income			4,308	3,064		1,244			1,356	187	1,169
Administrative and general expenses			(757)	(750)	(7)				(594)	(594)	
Income and mining taxes			(6,888)	(7,117)	(3)	232			(11,744)	(11,893)	149
Minority interest in losses of subsidiary company			338			338			384		384
Foreign currency translation loss			(469)		10	(479)			(364)	(13)	(351)
Share of earnings of associated companies			11,922	11,922					24,843	24,843	
Other items (net)			22,473	22,473					10,919	15,267	(4,348)
Net income (loss) for the year			$46,017	$47,132	$(1,115)	Nil			$47,278	$53,322	$(6,044)
Identifiable assets	$33,152	$ 68,418	$ 101,570	$ 76,182	$13,054	$12,334	$33,659	$ 51,600	$ 85,259	$ 74,082	$11,177
Corporate assets			163,955	163,955					131,387	131,387	
Total assets			$ 265,525	$240,137	$13,054	$12,334			$ 216,646	$205,469	$11,177
Capital expenditures	$ 2,849	$ 17,770	$ 20,619	$ 10,568	$ 9,938	$ 113	$ 1,330	$ 14,963	$ 16,293	$ 16,057	$ 236

Canadian production includes exports of $6,400,000 in 1981 ($7,632,000 in 1980) primarily to customers in the United States.

(b) *Related party transactions*

The company participates in a number of transactions with Noranda Mines Limited (Noranda) and its affiliated companies (the Noranda Group). Details of significant transactions with the Noranda Group are set out below:

(i) *Canadian Hunter and American Hunter —*

The company has direct and undivided interests of 11.1% and 11.25% respectively in all of the gas and oil properties, production and related activities of Canadian Hunter and American Hunter. Noranda is the major holder and operator of both of these ventures.

(ii) *Canadian Electrolytic Zinc —*

The company has a direct and undivided interest of 9.8% in all of the properties, production and related activities of Canadian Electrolytic Zinc (CEZ) and the balance is owned by Noranda. The company's portion of zinc concentrate purchased on the company's behalf by CEZ from the Noranda Group amounted to approximately $11,236,000.

(iii) *Marketing and administrative services —*

The Noranda Group markets substantially all of the company's production and renders technical and administrative services to the company. During 1981 marketing fees were $312,000 and fees for technical and administrative services were $186,000.

(iv) *Short-term investment pool —*

The company participates in a short-term investment pool with the Noranda Group. The pool is operated to provide participating companies with the opportunity to invest or borrow funds on a short-term demand basis within the group. Over the year the company had an average deposit balance in the pool of $670,000 and interest earned on these funds amounted to $114,000. At the year end, the deposit in the pool was $30,000.

(c) Interest expense included in the consolidated statement of operations is $159,000 for 1981 ($770,000 for 1980).

(d) Capital expenditures for 1982 are estimated to be approximately $15,000,000.

(e) Included in gain on disposal of investments and other assets in 1981 is a gain of $20,000 resulting from the sale of property, plant and equipment and other assets ($261,000 in 1980).

(f) Included in income and mining taxes payable are deferred income taxes of $2,246,000 ($1,500,000 in 1980).

(g) Included in accounts and interest receivable is $2,793,000 which is the estimated grant receivable for 1981 under the Petroleum Incentives Program. This has been credited to the company's investment in gas and oil properties.

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